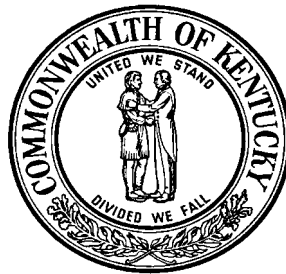


**REPORT OF THE AUDIT OF THE
DAVIESS COUNTY
SHERIFF**

**For The Year Ended
December 31, 2001**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLEN
Auditor of Public Accounts

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Louis R. Haire, Daviess County Judge/Executive
Honorable Keith R. Cain, Daviess County Sheriff
Members of the Daviess County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the accompanying statement of receipts and disbursements of the Sheriff of Daviess County, Kentucky, and the statement of receipts, disbursements, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2001.

We engaged Ross & Company PLLC, to perform the financial audit of these statements. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Daviess County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
DAVIESS COUNTY
SHERIFF**

**For The Year Ended
December 31, 2001**

**ROSS & COMPANY, PLLC
Certified Public Accountants**

**800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE DAVISS COUNTY SHERIFF

**For The Year Ended
December 31, 2001**

Ross and Company, PLLC has completed the Daviess County Sheriff's audit for the year ended December 31, 2001. We have issued an unqualified opinion on these financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

The Sheriff's Operating Fund with the State Treasurer had a fund balance of \$168,513 as of December 31, 2001. Revenues increased by \$270,187 from the prior year and disbursements increased by \$224,876. The Daviess County fiscal court received \$240,055 from the operations of the Sheriff's office and made a contribution of \$1,101,724 to the Sheriff's office.

Report Comment:

- The Sheriff Should Required Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Deposits:

The Sheriff's deposits were not insured and collateralized by bank securities or bonds.

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Honorable Keith R. Cain, Daviess County Sheriff
Members of the Daviess County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts and disbursements of the County Sheriff of Daviess County, Kentucky, and the statement of receipts, disbursements, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2001. These financial statements are the responsibility of the County Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff prepares the financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the receipts and disbursements of the County Sheriff and the receipts, disbursements, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Louis R. Haire, Daviess County Judge/Executive
Honorable Keith R. Cain, Daviess County Sheriff
Members of the Daviess County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented a comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross and Company".

Ross and Company, PLLC

Audit fieldwork completed -
November 12, 2003

DAVIESS COUNTY
KEITH R. CAIN, COUNTY SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS

For The Year Ended December 31, 2001

Receipts

Federal Grants		\$	56,763
State Grants			107,157
State Fees for Services			89,862
Circuit Court Clerk:			
Sheriff's Security Service	\$	54,630	
Fines and Fees		3,410	58,040
Fiscal Court			1,101,724
County Clerk			12,665
Commission on Taxes			843,353
Fees Collected for Services:			
Auto Inspections	\$	41,461	
Accident and Police Reports		7,722	
Advertising Fee		10,892	
10% Add-on Penalty		82,052	
Serving Papers		124,565	
Carrying Concealed Deadly Weapon Permits		16,830	
Miscellaneous		500	284,022
Other Receipts:			
Transporting Prisoners	\$	11,589	
Reimbursed Expenses		16,446	
Daviess County School Board - D.A.R.E. Officer		15,000	
Apollo High School - School Resource Officer		25,750	68,785
Interest Earned			43,019
Total Receipts		\$	2,665,390

The accompanying notes are an integral part of this financial statement.

DAVIESS COUNTY
 KEITH R. CAIN, COUNTY SHERIFF
 STATEMENT OF RECEIPTS AND DISBURSEMENTS
 For The Year Ended December 31, 2001
 (Continued)

Disbursements

Payments to State:

Carrying Concealed Deadly Weapon Permits	\$	11,330
--	----	--------

Payments to County:

County Collections		21,590
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Other Disbursements:

Reimbursements		16,446
----------------	--	--------

Total Disbursements

\$	49,366
----	--------

Net Receipts

\$	2,616,024
----	-----------

Payments to State Treasurer:

75% Operating Fund	\$	2,375,969		
25% County Fund		240,055		2,616,024

Balance Due at Completion of Audit

\$	0
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The accompanying notes are an integral part of this financial statement.

DAVIESS COUNTY
KEITH R. CAIN, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER

For The Year Ended December 31, 2001

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2001	\$ 156,450	\$	\$ 156,450
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	2,375,969		2,375,969
Fees Paid to State - County Funds (25%)		240,055	240,055
Total Funds Available	\$ 2,532,419	\$ 240,055	\$ 2,772,474
<u>Disbursements</u>			
Personal Services-			
Sheriff's Salary	\$ 79,552	\$	\$ 79,552
Sheriff's Incentive	1,418		1,418
Deputies' Salaries	1,309,782		1,309,782
Overtime Gross	64,464		64,464
Employee Benefits-			
Employer's Share Social Security	103,440		103,440
Employer's Share Retirement	206,050		206,050
Employer's Paid Health Insurance	250,134		250,134
Other Payroll Disbursements	1,767		1,767
Contracted Services-			
Advertising	5,960		5,960
Materials and Supplies-			
Office Supplies	4,790		4,790
Uniforms	24,210		24,210
Other Charges-			
Conventions and Travel	6,121		6,121
Telephone	6,349		6,349
Radio and Siren Maintenance	9,217		9,217
Cellular Telephone	5,287		5,287
Equipment	1,350		1,350
Training	17,842		17,842
Supplies	14,208		14,208
Miscellaneous	22,653		22,653

The accompanying notes are an integral part of this financial statement.

DAVIESS COUNTY
 KEITH R. CAIN, COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES OF THE
 SHERIFF'S OPERATING FUND AND COUNTY FUND WITH THE STATE TREASURER
 For The Year Ended December 31, 2001
 (Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Disbursements</u> (Continued)			
Auto Expenses-			
Gasoline	\$ 50,273	\$	\$ 50,273
Maintenance and Repairs	68,200		68,200
Capital Outlay-			
Office Equipment	554		554
Equipment	13,457		13,457
Vehicles	90,280		90,280
Computers	6,548		6,548
Payments to the Daviess County Fiscal Court	\$	\$ 240,055	240,055
Total Disbursements	\$ 2,363,906	240,055	\$ 2,603,961
Fund Balance - December 31, 2001	\$ 168,513	\$ 0	\$ 168,513

The accompanying notes are an integral part of this financial statement.

DAVIESS COUNTY
KEITH R. CAIN, COUNTY SHERIFF
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and periodically paid to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

B. Basis of Accounting

The financial statements have been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The Attorney General issued a letter which stated that some receipts of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are receipted in the 75 percent fund.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

DAVISS COUNTY
KEITH R. CAIN, COUNTY SHERIFF
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2001
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months and 6.41 percent for the last six months of the calendar year. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.78 percent for the first six months and 16.28 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 18, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$179,273 of public funds uninsured and unsecured.

DAVIESS COUNTY
 KEITH R. CAIN, COUNTY SHERIFF
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2001
 (Continued)

Note 3. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end or as of December 18, 2001.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	18,629,814
Uncollateralized and uninsured	<u>179,273</u>
Total	<u><u>\$ 18,909,087</u></u>

Note 4. Special Investigations Fund

The Daviess County Sheriff maintains a Special Investigations Fund for monies received from drug related arrest. The balance of the fund as of January 1, 2001 was \$21,376. Receipts consisting primarily of drug seizures and interest were \$69,172. Disbursements consisting primarily of expenditures for drug crime fighting supplies were \$77,389. The Special Investigation Fund as of December 31, 2001 was \$13,159.

Note 5. Community Oriented Policing Services Grant

In 1999, the Daviess county Sheriff was awarded a universal hiring grant under the Community Oriented Policing Services (COPS) program from the United States Department of Justice in the amount of \$225,000, to be expended over three years. During calendar year 2001, the Sheriff received and expended funds totaling \$41,477.

Note 6. Reimbursed Expenditures

The amount deposited to the Sheriff's Operating Fund (75%) with the Kentucky State Treasurer included reimbursed expenditures. The reimbursed expenditures include amounts from the State and payments from the county as well as refunds.

DAVIESS COUNTY
 KEITH R. CAIN, COUNTY SHERIFF
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2001
 (Continued)

Note 6. Reimbursed Expenditures (Continued)

The following table details reimbursed expenses, of which 100% were credited to the 75% operating fund.

Kentucky Law Enforcement Foundation	
Policing Fund	\$ 97,156
Other State Grants	10,000
Federal COPS Grant	41,477
Fiscal Court Assistance	1,101,724
100% Fees	2,214
Daviess County School Board -	
D.A.R.E. Officer	15,000
Apollo High School -	
School Resource Officer	25,750
Other Federal Grants	15,286
Overtime Reimbursements	1,462
Other Reimbursements	<u>12,770</u>
Total	<u><u>\$1,322,839</u></u>

COMMENT AND RECOMMENDATION

DAVIESS COUNTY
KEITH R. CAIN, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2001

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 18, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$179,273 of public funds uninsured and unsecured.

Sheriff's Response:

We have subsequently changed banking institutions.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

ROSS & COMPANY, PLLC
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To the People of Kentucky

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Finance and Administration Cabinet

Honorable Louis R. Haire, Daviess County Judge/Executive

Honorable Keith R. Cain, Daviess County Sheriff

Members of the Daviess County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the receipts and disbursements of the Daviess County Sheriff and the receipts, disbursements, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2001, and have issued our report thereon dated November 12, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Daviess County Sheriff's financial statements for the year ended December 31, 2001, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation section.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Daviess County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross and Company".

Ross and Company, PLLC

Audit fieldwork completed -
November 12, 2003

